

CHAPTER 1**GENERAL OVERVIEW**0101 **GENERAL**

010101. Internal controls are steps taken by the National Aeronautics and Space Administration (NASA) to provide reasonable assurance that Agency activities are efficient and consistent with policy, organizational objectives, and applicable laws and regulations. Internal controls are an integral part of NASA's financial and business policies and procedures and consist of all the measures taken by the organization for the purposes of protecting its resources against fraud, waste, and abuse; ensuring accuracy and reliability of accounting and operational data; ensuring compliance with federal laws and regulations, as well as Agency policy; and evaluating the level of operational efficiency in a functional area (such as the Office of the Chief Financial Officer (OCFO)) and its business units (e.g., Comptroller, Financial Management, Policy and Business Integration).

Internal controls are the methods used to successfully organize, manage, and safeguard the integrity of NASA's financial community's daily operations – in effect, its standard operating procedures. Internal controls must be an integral part of the operating procedures used to reach objectives and mitigate risks in an effort to prevent undesired results. Although internal controls are every employee's responsibility, managers will be held accountable for ensuring sound internal controls are in place within their respective business units.

010102. Important concepts concerning internal controls are:

A. Internal control promotes policy compliance, operational efficiency, and reliable financial reports.

B. Internal control is an ongoing or continuous assessment process. It must be a part of every organization's daily business processes. It is a means to an end, not an end itself.

C. Internal control is driven by people. It is not merely policy manuals and forms, but people utilizing knowledge and tools provided to safeguard resources and assets at every level of the institution to ensure successful operations.

0102 **AUTHORITIES**

010201. In addition to this policy, the following laws, regulations, and guidelines are relevant to NASA's internal control program:

- A. Accounting and Auditing Act of 1950 (Pub. L. No. 97-258, as amended by 31 U.S.C. Sec. 3512);
- B. Federal Managers' Financial Integrity Act of 1982 (FMFIA), Pub. L. No. 97-255, 31 U.S.C. 3512;
- C. Federal Financial Management Improvement Act of 1996 (FFMIA), Pub. L. No. 104 – 208;
- D. Government Performance and Results Act (GPRA) of 1993, Pub. L. No. 103-62, (31 U.S.C. 1115 – 1119), (39 U.S.C. 2801 – 2805);
- E. Chief Financial Officers Act of 1990, as amended (CFO Act); Pub. L. No. 101-576
- F. Inspector General Act of 1978, as amended (IG Act); 5 U.S.C. App.
- G. Government Accountability Office (GAO) Standards for Internal Control in the Federal Government;
- H. GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 2, Accounting, Appendix II, and Title 7, Fiscal Procedures;
- I. Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control";
- J. OMB Circular A-127, "Financial Management Systems";
- K. NASA policy directives and regulations, including NASA Policy Directive (NPD) 1200, Management Accountability and Control System;
- L. Federal Information Security Management Act of 2002 (FISMA); Pub. L. No. 107-296 & 107-347
- M. Improper Payments Information Act of 2002; Pub. L. No. 107-300
- N. Single Audit Act, as amended 31 U.S.C 7501 et. seg.; and
- O. Clinger-Cohn Act of 1996, Pub. L. No. 104-106, as amended (formerly the Information Technology Management Reform Act).

0103 ACCOUNTING AND AUDITING ACT AND FMFIA

The Accounting and Auditing Act of 1950 (Pub. L. No. 97-258, as amended by 31 U.S.C. 3512) requires the head of each agency to establish and maintain adequate systems of internal

control. The FMFIA amended the former Act to require ongoing evaluations and reports on the adequacy of the systems of internal control of each executive agency. These acts together require that management controls provide reasonable assurance that:

- A. Obligations and costs are in compliance with applicable laws;
- B. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- C. Agency revenues and expenditures are properly recorded and accounted for to permit accurate account transactions and reliable financial and statistical reports, and to maintain accountability over assets; and
- D. Programs are efficiently and effectively carried out in accordance with law and Agency policy.

0104 DEFINITIONS

010401. Internal control. Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

010402. Office of Quality Assurance (OQA). The OQA in the Office of the Chief Financial Officer (OCFO) is responsible for developing and implementing NASA's financial management internal control program. OQA's responsibilities are identified in section 010603.

010403. Internal control review. Internal control review is an in-depth examination of financial management controls that exist within an Assessable Unit's activity. The review will focus on either administrative, financial, or program activities and will examine significant control weaknesses, activities with high inherent risk, or other areas of concern to management.

010404. Financial reporting. Financial reporting (relevant to internal controls over financial reporting introduced by the revised OMB Circular A-123, dated 12/21/04) includes annual financial statements of an agency, as well as other significant internal and external financial reports that could have a material effect on significant spending, budgetary, or other financial decision of the agency or that is used to determine compliance with laws and regulations. NASA's management is required to provide a separate assurance statement on internal controls over financial reporting in its annual Performance and Accountability Report (PAR).

010405. Assessable unit (AU). AUs are components of an organization that have been established for financial management internal control evaluation purposes. Various operations that support financial management are divided into distinct business units of attribute

categories so that a meaningful evaluation of internal control can be performed. The guidance on establishing assessable units is discussed in Chapter 3 of Volume 9.

010406. Risk assessment. Risk assessment is the identification and analysis of relevant risks or vulnerabilities associated with achieving an AU's mission and objectives. The risk assessment guidance discussed in Chapter 4 of Volume 9 provides detailed policy on how risk assessments shall be conducted.

010407. Self assessment. Self assessments are internal reviews completed by the AU points of contact to identify internal control deficiencies and/or risks that must be addressed. The self assessment guidance discussed in Chapter 5 of Volume 9 defines a self assessment as an internal control management and evaluation tool developed in a questionnaire format. The checklist is divided into five sections, based on the five standards for internal control: control environment, risk assessment, control activities, information and communications, and monitoring.

010408. Control deficiency. Deficiencies in the design or operation of a control which prevent management or employees, in the normal course of performing their assigned functions, from avoiding or detecting misstatements on a timely basis. A design deficiency exists when a control necessary to meet the control objectives is missing or an existing control is not properly designed, so that even if the control objective operates as designed the control objective is not always met. Compliance deficiencies are those in which the control is designed properly but management or employees are not complying with the control requirements and therefore a deficiency exists.

010409. Reportable condition. A reportable condition is a significant weakness in the design or operation of internal control that could, in management's judgment, adversely affect the organization's ability to meet its internal control objectives.

010410. Material weakness. A material weakness is an internal control problem, that in management's judgment, could impair fulfillment of the CFO's mission, deprive the programs of needed services, or violate statutory or regulatory requirements. Material weaknesses are reportable conditions that are significant enough to report outside of the Agency.

010411. Reasonable assurance. This is the standard for a determination by management that there are no material weaknesses and reportable conditions, that control deficiencies are minimal or limited in scope, and that there is a sufficient level of confidence in the existing control system(s) to allow management to feel satisfied that operations will proceed as intended.

0105 FMFIA ASSURANCES

010501. The NASA Administrator is responsible for providing the assurance statements and information related to Section 2, Section 4, and internal control over financial reporting in a single FMFIA report section of the annual PAR labeled "Management

Assurances.” This section includes the annual assurance statements, summary of material weaknesses and non-conformances, and summary of corrective action plans. Management’s assurance statement relating to internal control over financial reporting and any related material weaknesses and corrective actions shall be separately identified. The statements are per the requirements of FMFIA and OMB Circular A-123, “Management’s Responsibility for Internal Control.”

010502. Per OMB Circular A-123, NASA should use various internal and external sources of information, based on NASA’s best judgment, to assist in the assessment of internal controls. Some examples of key sources include:

- A. Office of Inspector General (OIG) and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products;
- B. Audits of financial statements conducted pursuant to the CFO Act, as amended, including: information revealed in preparing the financial statements; the auditor’s reports on the financial statements, internal control, and compliance with laws and regulations; and any other materials prepared relating to the statements;
- C. Annual performance plans and reports pursuant to GPRA; and
- D. Program Assessment Reporting Tool (PART) assessments.

010503. Section 2 assurances. 31 U.S.C. 3512(d) (2) (commonly referred to as Section 2 of the FMFIA) requires the NASA Administrator to provide an annual statement of assurance on compliance of agency internal controls with prescribed standards for the annual PAR. The statement must take one of the following forms:

- A. Unqualified statement of assurance (no material weaknesses reported);
- B. Qualified statement of assurance, considering the exceptions explicitly noted (one or more material weaknesses reported); or
- C. Statement of no assurance (agency has no internal control processes in place or has pervasive material weaknesses).

Additionally, a Statement of Assurance for Internal Control over Financial Reporting must be provided by the Agency CFO in the annual PAR. This statement provides assurance about the effectiveness of the internal controls over financial reporting and is based on results of management’s assessment conducted in accordance with the requirements in Appendix A of OMB Circular A-123.

010504. Section 4 reporting. NASA is also responsible for providing an annual statement on whether its financial management systems conform to government-wide requirements as outlined in OMB Circular A-127 "Financial Management Systems," section 7. If

NASA does not conform with financial systems requirements, the statement must discuss its plans for bringing its systems into compliance.

0106 RESPONSIBILITIES

010601. Administrator. The Administrator retains responsibility for submitting the NASA Annual Statement of Assurances, pursuant to the FMFIA and OMB Circular A-123, to OMB. This report is included in the annual NASA PAR. The Administrator is also responsible for appointing the Chair of the NASA Operations Council (NOC). An assurance statement on the effectiveness of internal control over financial reporting must be provided as a subset to the overall FMFIA assurance statement.

010602. Associate Administrator for Institutions and Management. The Associate Administrator for Institutions and Management is responsible for overseeing overall Agency implementation of management control; establishing Agency management control policy with input from the Center Directors and Officials-in-Charge (OIC); and providing support to meetings and other activities NOC conducts to review and report on Agency-wide internal controls. The Associate Administrator is also responsible for audit liaison functions, including processing OIG and GAO audits.

010603. Agency Chief Financial Officer (CFO). The Agency CFO is responsible for the following:

A. Conducting detailed reviews of NASA's accounting systems, pursuant to OMB Circular A-127 "Financial Management Systems."

B. Preparing the annual statement indicating whether NASA's financial management systems conform to OMB Circular A-127 requirements and reporting plans to correct any financial management-related non-conformances.

C. Establishing and issuing Agency policy pertaining to the Financial Management internal control program.

010604. OCFO OQA. The OCFO OQA shall develop and execute a comprehensive, effective quality assurance program that successfully evaluates and systematically reports on the efficiency and effectiveness of Agency-wide financial management internal controls. OQA will send all annual assessment reports for the OCFO to the Associate Administrator for Institutions and Management.

010605. Mission Directorates, Mission Support Offices, NASA Competency Center, NASA Shared Services Center (NSSC), NASA Center CFOs and OICs. NASA Center CFOs, Mission Directorates, Mission Support Offices, NASA Competency Center, and the NSSC are responsible for ensuring that adequate internal controls are established and maintained for all financial management-related activities under their control. Sound internal controls shall be established and maintained in all procurement, budget, and finance and accounting

management systems. Accounting systems shall include all systems and subsystems that process and record transactions, track and control assets and other resources, make disbursements, receive payments, and/or produce financial reports. NASA Center CFOs and OICs, Mission Directorates, Mission Support Offices, NASA Competency Center, and the NSSC shall conduct required internal control assessments (as prescribed in this Volume) of financial management-related activities and report results to the OQA. In addition, they must develop and implement corrective action plans for deficiencies that exist and report monthly to the OQA on actions taken to remedy these deficiencies.

010606. NASA Operations Council. The NOC is comprised of NASA executives and meets quarterly to discuss internal control material weaknesses and major management challenges that exist within NASA. The NOC reviews, challenges, and monitors all corrective action plans.

010607. Financial Audit Committee. The Financial Audit Committee was established to advise the NASA Administrator on matters related to Agency-wide financial management improvement. The Committee will function solely as an advisory body and fully comply with the provisions of the Federal Advisory Committee Act.

010608. Director, Center Fiscal Operations. The Director of Center Fiscal Operations is the liaison between the Agency CFO and the Center CFOs. All requirements, including those pertaining to internal controls, placed on Center CFOs must be coordinated through the Director of Center Fiscal Operations to ensure that efforts are properly managed and feasible under established guidelines.

010609. Agency Managers and employees. Agency managers and employees are responsible for ensuring that internal controls are embedded throughout operations and processes. Agency managers and employees are stewards of NASA resources, and ensure that NASA resources are used efficiently and effectively to achieve intended program results. NASA resources shall be used consistent with our mission, in compliance with law and regulation, and with minimal potential for waste, fraud, and abuse.

010610. Inspector General. The NASA OIG serves as an independent and objective audit and investigative organization to assist NASA by performing audits and investigations. The OIG prevents and detects crime, fraud, waste and abuse and assists NASA's management in promoting economy, efficiency, accountability, and effectiveness in its programs and operations. Internal controls are management's responsibility; the OIG's actions do not augment, or are they considered a substitute for a good internal control structure.

0107 POLICY

010701. Consistent with FMFIA and OMB Circular A-123, NASA must establish and maintain a cost-effective system of internal controls to provide reasonable assurance that Government resources are protected against fraud, waste, mismanagement and misappropriation. All levels of management are responsible for ensuring the adequacy of controls. NASA must

manage all of its program, financial, and administrative activities effectively and efficiently to achieve the Agency's goals. NASA must comply with the FMFIA and with GAO internal control standards.

NASA's financial management community will establish controls to provide reasonable assurance of the following:

- A. Financial management activities achieve their intended results;
- B. Financial management activities are protected from waste, fraud, unauthorized use, misappropriation, and mismanagement;
- C. Resources are used consistent with NASA's mission;
- D. Laws and regulations are followed; and
- E. Reliable and timely information is obtained, maintained, reported, and used for making sound decisions.

010702. NASA financial community managers shall periodically evaluate the effectiveness of their internal controls and maintain related results and documentation for future reviews. The OCFO, Center CFOs, OICs, Mission Directorates, Mission Support Offices, NASA Competency Center, and the NSSC shall evaluate financial management internal controls, as required, for their assessable unit, using self-assessment checklists and other tools provided by the OQA. Corrective action plans must be developed for any deficiencies that exist, along with timeframe for implementation, and maintained on-site for OQA reviews. Assessable units shall track these recommended actions to closure and report results to the OQA monthly.

0108 INTERNAL CONTROL STANDARDS

As prescribed by GAO's Standards for Internal Control in the Federal Government, the following standards define the minimum level of quality assurance for NASA's financial internal controls and provide the basis against which these internal controls shall be evaluated:

010801. Control Environment. The control environment sets the tone of the organization by influencing the control conscience of its employees. Control environment factors include the integrity, ethical values, and competence of the employee; management's philosophy and operating style; the manner by which management assigns authority and responsibility, and organizes and develops its employees; and the attention and direction provided by NASA management. NASA managers shall establish and maintain an environment throughout the Agency that sets a positive and supportive attitude toward financial management internal controls and conscientious management.

010802. Risk Assessment. Risk assessment is the identification, measurement, and analysis of risks, internal and external, controllable and uncontrollable, at individual business

levels and for NASA as a whole. Risk assessment forms the basis for determining how the financial management risks shall be managed and what type, quality, and quantity of financial management internal controls shall be implemented to reasonably assure that NASA's goals are achieved.

010803. Control Activities. Control activities include policies, procedures, and mechanisms in place to help ensure that agency objectives are met. Policies and procedures should be formalized and made available and accessible to employees. When determining whether a particular control should be implemented, agencies should consider the risk and potential consequences of failure as well as the likely benefit and cost (in resources) of establishing the control. Too much control is expensive and counterproductive, while too little control presents undue risk; managers must seek a balance. Control activities include:

A. Review of operating performance and exception reports. Senior management shall review monthly reports showing financial costing actuals to date versus cost estimates.

B. Approval and authorization for transactions and activities. Appropriate levels of management shall review, approve, and authorize financial transactions according to their oversight responsibilities. All authorizations require dual signatures.

C. Segregation of duties. A single individual shall not be allowed to request, review, approve, and post transactions to NASA's Financial Management systems. Segregating duties reduces opportunity for an employee to commit and conceal fraud or errors in judgment.

D. Independent checks. Various types of independent checks are used to increase data accuracy. Some examples are, but are not limited to, account reconciliations, computer-programmed controls, management review of reports, and user review of computer-generated reports.

010804. Information and Communications. Communication allows employees to identify, capture, and exchange pertinent information in a form and timeframe that enable people to perform their duties. This not only includes information systems reports but it also includes the day-to-day communication among employees, organizations, supervisors, and senior management. Information and communication must flow up and down the organization and flow across departments and divisions.

010805. Monitoring. Controls put in place must be periodically reviewed and assessed to ensure that they are effective and adequate. This is done through ongoing monitoring and separate evaluations of financial management internal controls. Monitoring and corrective action shall produce sufficient evidence that the financial control systems for which financial managers are responsible are effective. Monitoring is performed at a higher level than the routine checks built into the day-to-day routine and involves a greater degree of independence from those who perform the work.

0109 OCFO INTERNAL CONTROLS APPROACH

010901. The evaluation and reporting approach presented in this section provides an efficient and effective way, based on techniques used to evaluate and report on the internal controls associated with financial statements, but expanded to encompass the controls necessary for administrative and program activities with systems subject to these requirements.

010902. The OCFO OQA approach for evaluating, improving, and reporting on internal controls is comprised of seven (7) phases, as established by FMFIA:

- A. Organize the business process for conducting internal control evaluations;
- B. Establish functional or organizational assessable units within the financial community;
- C. Conduct risk assessments on AUs in order to appropriately identify, measure, and prioritize risks so that attention can be placed on those identified areas of greatest risk impact. Make recommendations as to the findings;
- D. Conduct self assessments on AUs to examine internal controls to determine how well controls are performing. Make recommendations as to the findings and review corrective action plans for those areas;
- E. Conduct quality assistance visits to provide reasonable assurance that the NASA financial community, specifically the assessable units, are adequately engaged in assessing, reporting, and monitoring internal controls and/or deficiencies;
- F. Conduct internal control reviews to examine significant control weaknesses, activities with high inherent risk, or other areas of concern to management. Make recommendations as to the findings; and
- G. Summarize and report annually on the results of Internal Control Assessments to the CFO, who shall distribute reports to the NASA Financial Management Community, the Financial Advisory Committee, and the Associate Administrator for Institutions and Management for assessment by senior management and possible inclusion in the NASA Program and Accountability Report.